

Message Text

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ACTION TRSE-00

INFO OCT-01 AF-04 EUR-12 EA-06 ISO-00 AGR-05 INT-05 FEA-01

AID-05 CIAE-00 COME-00 EB-07 FRB-01 INR-05 NSAE-00

RSC-01 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01

OMB-01 NSC-05 SS-15 STR-01 CEA-01 L-02 H-01 DODE-00

PA-01 USIA-06 PRS-01 ABF-01 /101 W

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R 191145Z DEC 74

FM AMEMBASSY DAR ES SALAAM

TO SECSTATE WASHDC 7080

INFO AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY NAIROBI

AMEMBASSY PARIS

USMISSION EC BRUSSELS BY POUCH

AMEMBASSY CANBERRA BY POUCH

AMEMBASSY HELSINKI BY POUCH

AMEMBASSY STOCKHOLM BY POUCH

AMXONSUL ZANZIBAR BY POUCH

C O N F I D E N T I A L DAR ES SALAAM 4133

NAIROBI FOR REDSO; PARIS FOR RFC

E.O.11652: GDS

TAGS : EFIN, EGEN, ECON, EAID, TZ

SUBJECT : TANZANIAN FOREIGN EXCHANGE SITUATION SHOWS IMPROVEMENT

REF: A) DAR ES SALAAM 4103; B) DAR ES SALAAM A-200;

C) NAIROBI 9526; AND D) DAR ES SALAAM A-52

1. SUMMARY. TANZANIAN RESERVES CLIMB, THANKS TO OPPORTUNE

LOAN BY ZAMBIANS AND AVAILABILITY OF IMF OIL TRANCHE, TO

OVER \$70 MILLION MARK. ALTHOUGH SHORT-TERM BORROWINGS

RANGE IN \$26-30 MILLION LEVEL, LOANS AND GRANTS ARE

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COMING IN FROM AID DONORS IN SUFFICIENT QUANTITIES TO

MAKE IT APPEAR THAT TANZANIA WILL BE ABLE COVER ALL FOREIGN EXCHANGE REQUIREMENTS WITH EASE OVER NEXT 120 DAYS. HOWEVER, SECOND AND THIRD QUARTERS OF CY 1975 STILL LOOK TO BE DIFFICULT PERIOD FOR TANZANIA REGARDING FOREIGN EXCHANGE AVAILABILITY. BANKING OFFICIAL ALSO DENYS TANZANIA CONSIDERING DEVALUATION OF SHILLING ALTHOUGH MAY DO SO IF KENYA DEVALUES. END SUMMARY.

2. DURING THIRD WEEK DECEMBER WE HAVE REVIEWED TANZANIAN FOREIGN EXCHANGE SITUATION AND FACTORS WHICH WILL ASSIST TANGOV'S BUDGETING OF FOREIGN EXCHANGE, AND FIND OUTLOOK SHOWS DRAMATIC IMPROVEMENT SINCE TURN OF MONTH.

(A) KNOWLEDGEABLE BANKING OFFICIAL HAS TOLD US THAT ON FOREIGN RESERVES AT BANK OF TANZANIA IMPROVED SHARPLY DURING NOVEMBER AND CROSSED ABOVE 300 MILLION SHILLING (\$42 MILLION) LEVEL ON DECEMBER 1. REASON FOR SUDDEN IMPROVE

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MENT IS LOAN MADE AVAILABLE BY ZAMBIAN GOVERNMENT AT END OF NOVEMBER. CLOSELY-HELD LOAN ARRANGEMENT WORKED OUT BETWEEN NYERERE AND KAUNDA DURING VISIT LAST MONTH. UNABLE TO DETERMINE EXACT SIZE OF LOAN, BUT WE UNDERSTAND IT OVER \$10 MILLION. APPRECIATE ANY DETAILS LUSAKA CAN GLEAN ON THIS DEVELOPMENT.

(B) ON DECEMBER 3 TANGOV RECEIVED TELEGRAM FROM IMF ADVISING THAT SDR 22 MILLION, AS OIL TRANCHE, HAD BEEN PLACED AT TANZANIA'S DISPOSAL. ANOTHER SDR 6 MILLION IS STILL AVAILABLE AS PART OF REGULAR ALLOCATION.

(C) GOVERNMENT-OWNED DAILY NEWS OF DECEMBER 18 REPORTED TANZANIA TO RECEIVE US\$9 MILLION FROM EEC SPECIAL FUND AS TIED GRANT TO OFFSET HIGH COST OF ENERGY IMPORTS.

(D) SWEDES IN FINAL STAGE OF PREPARING OFFER T MAKE AVAILABLE 15,000 TONS OF WHEAT TO TANZANIA ON GRANT BASIS.

(E) AUSTRALIANS ARE READY TO UNVEIL GRANT OF 10,000 TONS OF WHEAT FOB DAR ES SALAAM.

(F) BRITISH, WE UNDERSTAND, LOOK TO ANNOUNCE DURING UPCOMING VISIT OF FORENGN SECRETARY CALLAHAN TO DAR ES SALAAM (WHICH IS SCHEDULED FOR EARLY JANUARY) OFFER OF 2 AND A HALF MILLION POUND STERLING PROGRAM LOAN.

(G) FIRST WEEK OF DECEMBER TANGOV CONCLUDED AGREEMENT
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WITH FINNISH GOVERNMENT TO PURCHASE, UNDER LONG-TERM CREDIT, 7,000 TONS OF WHEAT FLOUR.

(H) USAID/T IS PRESENTLY PROCESSING AGRICULTURAL SECTOR LOAN (WHICH, IN ESSENCE, IS A PROGRAM LOAN BUT ONLY FOR THE AGRICULTURAL SECTOR) AND IT IS POSSIBLE DISBURSEMENTS WILL BEGIN BY END OF FRIST QUARTER OF CY 1975.

(I) IBRD BOARD OF DIRECTORS APPROVED, ON DECEMBER 17, US\$30 MILLION PROGRAM LOAN TO TANZANIA AND PROCEEDS WILL

BECOME AVAILABLE EARLY IN NEW YEAR.

3. IN ADDITION TO FOREGOING, THERE ARE OTHER FAVORABLE SIGNS WHICH APPEAR TO BE LEADING TO FOREIGN EXCHANGE SAVINGS. REF A NOTES HALVING OF SURCHARGE ON EUROPE/EAST AFRICAN CONFERENCE LINES. REF B REPORTS SHARP INCREASES IN CONSUMER PRICES OF MOST COMMONLY-EATEN STAPLES BY TANZANIANS WHICH APPEARS TO HAVE ATTAINED EFFECT OF REDUCING MODERATELY DEMAND FOR CORN AND WHEAT, WHILE SUGAR SALES HAVE DROPPED DRAMATICALLY. GENERAL MANAGER OF SUGAR CORPORATION CAUTIOUSLY PREDICTING TANZANIA MAY BE MODEST EXPORTER OF SUGAR NEXT YEAR, RATHER THAN PURCHASING US\$15 MILLION WORTH OF SUGAR ABROAD AS LOOKS TO BE CASE IN CY 1974. FINALLY, IT IS OBVIOUS OTHER IMPORTS ARE FLOWING IN AT REDUCED LEVEL AS EVIDENCED BY SHARP DECLINE IN CONGESTION IN PORT OF DAR ES SALAAM.

4. SITUATION PROMISING ENOUGH TO PERMIT BANKING OFFICIALS TO ESTIMATE THAT TANGOV SHOULD HAVE NO DIFFICULTY IN MEETING ITS COMMITMENTS OVER NEXT 120 DAYS. IN THIS PERIOD TANGOV NEED REPAY OR ROLL OVER US\$26-30 MILLION IN 90-DAY BORROWINGS FROM AT LEAST FIVE US BANKS (WE UNDERSTAND TANZANIA'S ONLY COMMERCIAL BANK, THE STATE-OWNED NATIONAL BANK OF COMMERCE (NBC), UTILIZING LINES OF CREDIT EXCLUSIVELY WITH US BANKS). ALTHOUGH ONE LINE WITH US BANK UNDERUTILIZED BY \$10 MILLION TANGOV PRESSING HARD TO INCREASE MOST LINES FOR FUTURE EMERGENCIES. TWO US BANKS WE KNOW OF HAVE BEEN ASKED TO DOUBLE LINES OF US\$2 AND 3 MILLION EACH. THIS WEEK GOVERNOR OF CENTRAL BANK AND SENIOR EXECUTIVES OF NBC ARE IN LONDON TO IMPROVE WORKING RELATIONS WITH FINANCIAL INSTITUTIONS THERE. PARTICULARLY INTERESTING IS REPORT THAT THESE OFFICIALS WILL BE IN UK PRIMARILY TO TALK WITH ARABS REGARDING CREDIT LINES. WE PLAN TO FOLLOW UP ON THIS REPORT AFTER TEAM RETURNS BUT IT IS INTERESTING THAT THESE BANKERS

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LEFT JUST AFTER RETURN OF FIRST VICE PRESIDENT JUMBE AND MINISTERS OF FINANCE AND FOREIGN AFFAIRS FROM EXTENSIVE TOUR OF MIDDLE EAST (SEE DAR ES SALAAM 4116).

5. PROSPECTS FOR DEVALUATION OF TANZANIAN SHILLING DISCUSSED WITH BANKING OFFICIAL. HE REPORTS NO SERIOUS PLANS IN WORKS FOR PRESENT. IMF STAFF MEMBERS, ON VISITS TO TANZANIA, SEEM WELL SATISFIED WITH BOP MEASURES ADOPTED BY TANGOV AND, CONSEQUENTLY, IMF HAS MADE "NO MENTION" OF DEVALUATION. HE ACKNOWLEDGES THAT KENYA BEING HARD PRESSED BY IMF TO DEVALUE (AS REPORTED IN REF C) AND SUGGESTED THAT IN INTEREST OF EAST AFRICAN COMMUNITY SOLIDARITY TANZANIA COULD WELL TAKE DECISION TO DEVALUE WITH KENYA IF NORTHERN NEIGHBOR PRESSED TANGOV HARD.

6 WHILE THE FOREGOING REPORTS A WELCOME IMPROVEMENT IN TANZANIA'S FOREIGN EXCHANGE AVAILABILITY OUTLOOK, IT WOULD BE PREMATURE TO ASSUME THAT TANZANIA IS OUT OF THE WOODS OR EVEN ON THE EDGE OF THE FOREST QUITE YET. THE SECOND AND THIRD QUARTERS OF CY 1975 STILL LOOK TO BE THE TOUGHEST, AND WE FIND IT PRUDENT OF TANZANIAN BANKERS TO LINE UP CREDITS FOR PERIODS NOW FAR OVER THE HORIZON WHEN SHORT-TERM PAYMENT GAPS MAY BE NEEDED TO BE BRIDGED. ALTHOUGH BORROWING FROM ZAMBIA WAS QUITE UNEXPECTED BY US, TANZANIA'S CURRENT DIFFICULT FOREIGN EXCHANGE SITUATION NOW LOOKS TO BE RESOLVING IN MUCH THE WAY WE PROPHESED IN REF D -- I.E., THAT TANZANIA'S STANDING IS SUCH WITHIN ITS CIRCLE OF FRIENDS THAT FUNDS WILL COME FORWARD TO RESCUE IT FROM SLIPPING OVER INTO ANY BALANCE OF PAYMENTS ABYSS.
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